

Financial Statements of

YMCA OF OKANAGAN

Year ended December 31, 2014



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INDEPENDENT AUDITORS' REPORT

To the Members of the YMCA of Okanagan

We have audited the accompanying financial statements of YMCA of Okanagan (the "Association") which comprise the statement of financial position as at December 31, 2014, the statements of operations, changes in net assets, and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of YMCA of Okanagan as at December 31, 2014, and its results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Chartered Accountants
Kelowna, Canada
April 28, 2015

YMCA OF OKANAGAN

Statement of Financial Position

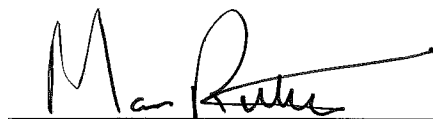
December 31, 2014, with comparative information for 2013

	2014	2013
Assets		
Current assets:		
Cash & cash equivalents	\$ 1,494,073	\$ 3,561,682
Cash & cash equivalents - restricted	266,021	226,861
Accounts receivable	476,965	354,174
Inventories	47,285	24,791
Prepaid expenses & deposits	105,749	149,256
	<u>2,390,093</u>	<u>4,316,764</u>
Long-term cash & investments:		
Cash & cash equivalents - restricted	4,664,283	1,644,922
Investments	15,500	15,500
	<u>4,679,783</u>	<u>1,660,422</u>
Tangible capital assets (note 2)	5,232,127	4,492,303
	<u>\$ 12,302,002</u>	<u>\$ 10,469,489</u>
Liabilities & Net Assets		
Current liabilities:		
Accounts payable & accrued liabilities	\$ 1,087,299	\$ 582,811
Deferred revenue & deposits	469,960	419,137
Current portion of deferred contributions	266,021	226,861
Current portion of long-term debt (note 3)	121,513	116,417
	<u>1,944,793</u>	<u>1,345,226</u>
Deferred contributions	126,125	43,750
Deferred contributions - capital (note 4)	2,896,308	2,959,912
Long-term debt (note 3)	1,302,347	1,425,382
Net assets:		
Unrestricted	348,562	2,848,456
Invested in tangible capital assets (note 5)	1,145,709	245,591
Liquidity reserve (note 6)	1,000,000	540,000
Capital fund reserve (note 6)	-	307,981
Strategic reserve (note 6)	3,500,000	-
Kelowna Family Y reserves (note 6)	38,158	753,191
	<u>6,032,429</u>	<u>4,695,219</u>
Commitments and contingencies (notes 7 & 8)		
	<u>\$ 12,302,002</u>	<u>\$ 10,469,489</u>

See accompanying notes to financial statements.

On behalf of the Board:

 Director

 Director

YMCA OF OKANAGAN

Statement of Operations

Year Ended December 31, 2014, with comparative figures for 2013

	2014	2013
Revenue:		
Admissions & memberships	\$ 5,765,091	\$ 5,467,358
Programs & rentals	1,697,677	1,593,782
Operational funding	5,440,539	4,948,769
Contributions	347,141	425,231
Contributions - gaming	168,763	175,902
Other revenue	273,157	209,030
	13,692,368	12,820,072
Amortization of deferred capital contributions	173,724	164,553
	13,866,093	12,984,625
Expenses:		
Bank charges & interest	152,171	140,798
Contract services	795,164	619,302
Information technology	341,626	185,817
Insurance	70,475	71,159
Labour	7,809,791	7,393,329
Marketing	201,283	155,021
Occupancy	405,429	358,388
Other expenses	35,936	45,820
Participant costs	1,003,828	928,722
Repairs & maintenance	158,822	198,391
Staff & volunteer expense	275,957	273,604
Supplies	558,182	636,874
YMCA national	182,824	141,553
	11,991,488	11,148,778
Depreciation of tangible capital assets	437,735	429,780
	12,429,224	11,578,558
Net contribution before allocation	1,436,869	1,406,067
H2O City of Kelowna allocation (note 7)	(99,659)	(26,395)
Net contribution	\$ 1,337,210	\$ 1,379,672

See accompanying notes to financial statements.

YMCA OF OKANAGAN

Statement of Changes in Net Assets

Year Ended December 31, 2014, with comparative figures for 2013

	Invested in Tangible Capital Assets (note 5)	Liquidity Reserve	Capital Fund Reserve	Strategic Reserve	Kelowna Family Y Reserves	Unrestricted	2014	2013
Net assets, beginning of year	\$ 245,591	\$ 540,000	\$ 307,981	\$ -	\$ 753,191	\$ 2,848,456	\$ 4,695,219	\$ 3,315,547
Excess of revenue over expenses:								
Operations	-	-	-	-	-	1,337,210	1,337,210	1,379,672
Amortization of deferred capital contributions	173,724	-	-	-	-	(173,724)	-	-
Depreciation of tangible capital assets	(437,735)	-	-	-	-	437,735	-	-
	(264,011)	-	-	-	-	1,601,221	1,337,210	1,379,672
Net investment in tangible capital assets	1,164,129	-	-	-	(715,000)	(449,129)	-	-
Transfers in net assets	-	460,000	(307,981)	3,500,000	(33)	(3,651,986)	-	-
Net assets, end of year	\$ 1,145,709	\$ 1,000,000	\$ -	\$ 3,500,000	\$ 38,158	\$ 348,562	\$ 6,032,429	\$ 4,695,219

See accompanying notes to financial statements.

YMCA OF OKANAGAN

Statement of Cash Flows

Year Ended December 31, 2014, with comparative figures for 2013

	2014	2013
Cash flows from operating activities:		
Net contribution	\$ 1,337,210	\$ 1,379,672
Add (deduct) items not involving cash:		
Amortization of deferred capital contributions	(173,724)	(164,553)
Depreciation of tangible capital assets	437,735	429,780
	<u>264,011</u>	<u>265,227</u>
Change in non-cash working capital balances:		
Accounts receivable	(122,791)	(162,946)
Inventories	(22,494)	(7,654)
Prepaid expenses & deposits	43,507	(79,177)
Accounts payable & accrued liabilities	504,488	(66,886)
Deferred revenue & deposits	50,823	(357,405)
Deferred contributions	121,535	270,611
	<u>575,068</u>	<u>(403,457)</u>
	2,176,289	1,241,442
Cash flows from investing activities:		
Change in restricted cash & cash equivalents	(3,058,521)	(673,372)
Deferred capital contributions received	110,121	124,240
Purchase of tangible capital assets	(1,177,559)	(173,548)
	<u>(4,125,959)</u>	<u>(722,680)</u>
Cash flows from financing activities:		
Repayment of long-term debt	(117,939)	(114,972)
	<u>(117,939)</u>	<u>(114,972)</u>
Change in unrestricted cash and cash equivalents	(2,067,610)	403,790
Unrestricted cash and cash equivalents, beginning of year	3,561,682	3,157,892
Unrestricted cash and cash equivalents, end of year	\$ 1,494,073	\$ 3,561,682

See accompanying notes to financial statements.

YMCA OF OKANAGAN

Notes to Financial Statements

Year Ended December 31, 2014

The YMCA of Okanagan (the "Association") is a charitable organization, incorporated under the Society Act (British Columbia), whose purpose is to support the development of strong individuals, families and communities in body, mind and spirit, and to connect with and support the YMCA's global family. The Association is a registered charity under the Income Tax Act and, accordingly, is exempt from income taxes, provided certain requirements of the Income Tax Act are met.

1. Summary of Significant Accounting Policies

The financial statements have been prepared by management in accordance with Canadian Accounting Standards for Not-For-Profit Standards in Part III of the CICA Handbook.

(a) Revenue recognition

The Association follows the deferral method of accounting for contributions.

Program fees and admissions revenue are recognized as the services are provided. Operational funding revenue includes revenue from employment programs to reimburse the Association for certain expenses paid out to participants. The corresponding expense amount is reflected as participant costs. Membership revenues are recognized when memberships are initiated or renewed and the revenues are collected or reasonably collectible. Deferred revenue represents cash received related to programs and memberships for which services will be provided in a future period.

Revenue from contracts from the City of Kelowna and grants from Federal and Provincial governments are recognized as the services are provided in accordance with the terms of the applicable agreement. For certain agreements, the Association is required to facilitate reimbursements of eligible expenses on behalf of the government agency.

Contributions and other revenue are recognized when the cash is received and the services or goods are provided. Deferred contributions include grants and donations relative to future periods due to restrictions by external contributors.

(b) Cash and cash equivalents

Cash and cash equivalents include cash, guaranteed investment certificates and term deposits readily convertible into cash.

(c) Inventories

Inventories, which consist of merchandise and consumable supplies, are recorded at the lower of cost, determined on a first-in/first-out basis, and replacement cost.

YMCA OF OKANAGAN

Notes to Financial Statements

Year Ended December 31, 2014

1. Summary of Significant Accounting Policies (continued)

(d) Tangible capital assets

Purchased tangible capital assets are recorded at cost, less accumulated amortization. Contributed capital assets are recorded at fair value at the date of contribution. When management determines that certain tangible capital assets no longer contribute to the Association's ability to provide services, their carrying amount is written down to its residual value. Amortization is provided on a straight-line basis at the following annual rates:

	Rate
Leasehold improvements	3.34 - 20%
Office equipment	20 - 33%
Program equipment	10 - 33%
Computer hardware & software	10 - 33%
Vehicles	20%

During the year ended December 31, 2014, the Association revised its estimate of amortization rates of certain of its tangible capital assets. The change has been applied prospectively.

(e) Deferred capital contributions

Deferred capital contributions consist of funds received for the purposes of funding capital improvements, including expansion to the Kelowna Family Y Centre facility. Deferred capital contributions are recognized as revenue in the statement of operations on a straight line basis at a rate corresponding with the amortization rate for the related tangible capital asset. In respect of funds used for repairs or other minor improvements charged to expense, the contributions are recognized in revenue in the year the expense is incurred.

(f) Contributed services

The Association leases its Kelowna Family Y Centre facility from the City of Kelowna for no consideration. The fair value of the lease has not been determined and, accordingly, no expense has been recognized in respect of this lease.

A substantial number of volunteers contribute a significant amount of their time each year. Because of the difficulty of determining fair value, contributed services are not recognized in the financial statements.

(g) Financial instruments

The Association measures cash, short-term guaranteed investment certificates and term deposits at fair value and accounts receivable and accounts payable, accrued liabilities and long-term debt at amortized cost. Changes in fair value of cash, short-term guaranteed investment certificates and term deposits are recognized in the statement of operations in the periods in which they arise.

YMCA OF OKANAGAN

Notes to Financial Statements

Year Ended December 31, 2014

(h) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the year. Actual results could differ from those estimates.

(i) Employee future benefits

The Association's employees are eligible to enroll in a defined contribution retirement plan offered by YMCA Canada. The expense for the year ended December 31, 2014 related to this plan totalled \$153,233 (2013 - \$126,670).

2. Tangible Capital Assets

December 31, 2014	Cost	Accumulated Amortization	Net Book Value
Leasehold improvements	\$ 5,890,953	\$ (1,301,521)	\$ 4,589,432
Office equipment	180,241	(143,254)	36,987
Program equipment	1,335,856	(938,822)	397,034
Computer hardware & software	518,758	(416,419)	102,339
Vehicles	216,250	(109,915)	106,335
	\$ 8,142,058	\$ (2,909,931)	\$ 5,232,127

December 31, 2013	Cost	Accumulated Amortization	Net Book Value
Leasehold improvements	\$ 5,117,978	\$ (1,053,094)	\$ 4,064,884
Office equipment	175,967	(120,464)	55,503
Program equipment	1,040,654	(839,387)	201,266
Computer hardware & software	510,163	(370,332)	139,831
Vehicles	119,736	(88,918)	30,818
	\$ 6,964,498	\$ (2,472,196)	\$ 4,492,303

Ownership of the Kelowna Family Y Centre tangible capital assets will revert to the City of Kelowna on the termination of the existing contract to operate the Kelowna Family Y Centre facility (note 7) with specific exceptions as outlined in the contract.

YMCA OF OKANAGAN

Notes to Financial Statements

Year Ended December 31, 2014

3. Long Term Debt

	2014	2013
Bank term loan, repayable in monthly installments of \$3,935 including interest at the lender's prime rate, due March 2032	\$ 624,446	\$ 651,997
Bank term loan, repayable in monthly installments of \$7,279 including interest at the lender's prime rate, due March 2022	565,664	634,802
Bridge financing from the City of Kelowna non-interest bearing, payable in cumulative annual repayments of not less than \$21,250	233,750	255,000
	1,423,860	1,541,799
Less: Current Portion	(121,513)	(116,417)
	\$ 1,302,347	\$ 1,425,382

The term loans are secured by a general security agreement, a fixed charge over fitness equipment and a tripartite agreement between the Association, the City of Kelowna and the bank, with a Solicitor's Letter of Opinion whereby the City of Kelowna will assume the loan obligation in the event of default. The Association also has an operating line of credit with an available limit of \$250,000. No amount was drawn on the operating line of credit as at December 31, 2014.

Scheduled principal payments required in each of the next five years, are as follows:

2015	\$ 121,513
2016	124,472
2017	127,702
2018	130,940
2019	134,276

YMCA OF OKANAGAN

Notes to Financial Statements

Year Ended December 31, 2014

4. Deferred Contributions - Capital

	2014	2013
Balance, beginning of year	\$ 2,959,912	\$ 2,999,964
Contributions received	110,120	124,501
Amount amortized to revenue	(173,724)	(164,553)
Balance, end of year	\$ 2,896,308	\$ 2,959,912

5. Net Assets Invested in Tangible Capital Assets

	2014	2013
Tangible capital assets	\$ 5,232,127	\$ 4,492,303
Less amounts financed by:		
Long-term debt	(1,190,110)	(1,286,800)
Deferred capital contributions	(2,896,308)	(2,959,912)
	\$ 1,145,709	\$ 245,591

YMCA OF OKANAGAN

Notes to Financial Statements

Year Ended December 31, 2014

6. Restricted Net Assets

Restricted net assets represent reserves set aside by the Association's board of directors and consist of the following:

(a) Liquidity reserve

Net assets restricted for the liquidity reserve are restricted for the purposes of ensuring that the Association maintains sufficient liquidity at all times to carry out its current operations.

(b) Capital fund reserve

Net assets restricted for the capital fund reserve are restricted for the purposes of funding future purchases of tangible capital assets for community programs.

(c) Strategic reserve

Net assets restricted for the strategic reserve are restricted for the purposes of funding the strategic priorities of the Association as identified by the Board of Directors.

(d) Kelowna Family Y reserves

i) *KFY deficit reserve*: As required in the Association's contract with the City of Kelowna for the operation of the Kelowna Family Y Centre, the Association is responsible to maintain a financial deficit reserve account to a minimum balance equal to 5% of the annual purchase of services payment by the City to be used to fund future operating deficits. Any surplus in the reserve will revert back to the City upon termination or completion of the agreement. Based on the 2014 purchase of service the 2014 reserve balance is \$33,069.

ii) *KFY repairs and maintenance reserve*: Net assets restricted for the repairs and maintenance reserve are restricted for the purposes of funding preventative and first-line repairs to the Kelowna Family Y Centre facility in accordance with the Association's agreement with the City of Kelowna. Appropriations consist of the surplus of annual preventative and first-line repairs, as prescribed in the agreement, over actual preventative and first-line repairs expenditures. In 2014 actual expenditures exceeded the threshold of \$43,909, resulting in no appropriations and leaving the reserve unchanged at \$5,089.

iii) *KFY 2014 renovation reserve*: Net assets restricted for the KFY 2014 renovation reserve are restricted for the purposes of funding renovations to the change rooms at Kelowna Family Y during 2014. At December 31, 2014 the renovation was substantially complete and the full reserve balance of \$715,000 had been utilized.

YMCA OF OKANAGAN

Notes to Financial Statements

Year Ended December 31, 2014

7. City of Kelowna Contracts

(a) Kelowna Family Y agreement

The Association entered into an agreement with the City of Kelowna (the "City") effective March 19, 2001, for the operation of the Kelowna Family Y facility (the "Facility") expiring April 1, 2040. The agreement provides for an annual purchase of services by the City for the operation of the Facility.

Until January 1, 2031, 50% of the annual net financial operating surplus, as defined in the agreement with the City, must be reinvested in the Facility and facility operations, as determined by the Association, as follows:

- i) Minimum of 65% shall be solely spent on the Facility and equipment improvements, development of capital reserves or reduction of debt;
- ii) Up to 25% shall be reinvested into the operations, the Facility or the equipment improvements; and
- iii) Up to 10% shall be used for additional funding of the KFY deficit reserve.

The remaining 50% is available for use by the Association at its sole discretion. After January 1, 2031, 50% of the surplus will be retained by the Association and the remaining 50% will be retained by the City.

The agreement can be terminated by either party without cause on or after April 1, 2025 provided 18 months notice is given and certain other conditions are met. On termination the City and the Association are subject to certain conditions as outlined in the agreement.

YMCA OF OKANAGAN

Notes to Financial Statements

Year Ended December 31, 2014

7. City of Kelowna Contracts (continued)

(b) H2O Fitness and Adventure Centre

The Association entered into an agreement with the City of Kelowna (the "City") effective January 1, 2012, for the operation of the H2O Adventure & Fitness Centre (the "H2O Centre") for a term of 60 months expiring December 31, 2016 with an option to renew for an additional five year term. The City owns the facility, improvements to the H2O Centre and equipment within the H2O Centre.

In consideration of the performance by the Association of its obligations under the contract, the Association is entitled to an inflation-adjusted recovery of administration expenses (2014 - \$349,770) plus an annual calculated amount for YMCA Canada Affiliation fees in accordance with the YMCA Canada formula (2014 - \$44,729).

Annual financial operating surplus or deficit is defined as year-end operating revenue less operating expenses (as specified in the agreement) less Association entitlement (as previously defined). Any annual surplus for the operations of the H2O Centre will be shared as follows:

- i) Net surplus funds less than \$100,000:
 - 33% shall be retained by the City and used as determined by the City.
 - 33% shall be retained by the Association to fund its programs and charitable activities within Kelowna.
 - 34% shall be retained by the City and placed in an Equipment Replacement and Improvement Fund.
- ii) Net surplus funds greater than \$100,000, the first \$100,000 will be shared as outlined above and the additional surplus over \$100,000 will be shared as follows:
 - 25% shall be retained by the City and used as the determined by the City.
 - 50% shall be retained by the Association to fund its programs and charitable activities within Kelowna.
 - 25% shall be retained by the City and placed in the Equipment Replacement and Improvement Fund.

For any annual deficit for the operations of the H2O Centre, the Association is responsible to fund the first \$20,000 from its own resources that are separate and distinct from any funds associated with the H2O operating budget shortfall. The City will be responsible to provide a grant for any deficit in excess of \$20,000 in an operating year.

YMCA OF OKANAGAN

Notes to Financial Statements

Year Ended December 31, 2014

8. Commitments and Contingencies

(a) Operating lease commitments

The Association has other commitments consisting of operating lease contracts for various program locations and office equipment.

Minimum payments expected in each of the next four years are approximately as follows:

2015	\$	193,276
2016		167,475
2017		52,415
2018		2,753
	\$	<u>415,919</u>

(b) Litigation and claims

Management reviews its exposure to any potential litigation for which it would not be covered by insurance and whether a successful claim against the Association would materially affect its financial statements. The Association is currently not aware of any claims brought against it that if not defended successfully would result in a material loss in these financial statements.

9. Financial Risks and Concentration of Risk

The Association is exposed to interest rate risks with respect to its cash equivalents investments and long term debt arrangements. Unless otherwise disclosed, the Association is not exposed to significant foreign exchange or credit risk. The maximum credit risk exposure of the Association's financial assets is the carrying value of the asset.

10. Comparative Information

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year.